

Sage Fixed Assets | White Paper

Getting Your Money's Worth from Fixed Assets Software

The ROI of implementing a complete fixed asset management solution



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Sage Fixed Assets

This report is informational only and not meant as accounting, tax, or legal advice. Exceptions and special provisions are not covered, so you should consult your accounting, tax, or legal professionals for advice specific to your situation.

Introduction

If you scan recent business headlines, you may notice frequent examples of inaccurate fixed asset management causing headaches for corporations, government entities, and nonprofit organizations. Federal law requires publicly traded companies and government entities to keep accurate fixed asset records. If your organization uses homegrown spreadsheets to track fixed assets, it may be exceedingly difficult to comply with reporting regulations and complex, changing tax laws.

Companies that fail to manage fixed assets effectively can misstate financial information and make mistakes in tax filings, resulting in fines or criminal charges for extreme cases. In most industries, fixed assets represent one of the largest investments on the balance sheet, and depreciation generates one of the largest expenses on the income statement.¹ Inaccurate fixed asset data will have a direct impact on financial statements. Earlier this decade, a string of high-profile accounting scandals led to criminal charges for executives and, ultimately, the passage of the Sarbanes-Oxley Act. Several of these cases, including WorldCom, involved misappropriation of fixed assets that contributed to fraudulent financial statements.

Government agencies also endure the consequences of inadequate control over fixed assets. Subject to financial review by the Government Accounting Office (GAO) and Congress, if federal agencies or programs mismanage fixed assets, future funding can be negatively affected. In 2007, the GAO released a report revealing that NASA had lost over \$94 million worth of fixed assets over ten years.² The space agency suffered from weak internal controls and systems that left it vulnerable to loss and theft. One employee with a missing laptop offered an explanation that the computer had been sent to the International Space Station, then “tossed overboard” and burned up in the atmosphere. Without an adequate system to track and monitor fixed assets, NASA could not hold the employee, or anyone else, accountable for the loss.

This paper will illustrate the ways that a complete fixed asset management system can save organizations tens of thousands of dollars per year. A comprehensive fixed asset solution should address tracking and monitoring of assets and the accurate calculation of depreciation. It should also provide the ability to conduct physical inventories of assets easily and reconcile the results to the fixed asset schedule. Finally, it should include easy, functional reporting to aid compliance, auditing, and preparation of financial reports and tax filings.

¹ “Three Strategies for Better Fixed Asset Management,” Business Finance, February 2008. Accessed online at www.insurancenewsnet.com

² “PROPERTY MANAGEMENT: Lack of Accountability and Weak Internal Controls Leave NASA Equipment Vulnerable to Loss, Theft, and Misuse” (GAO-07-432), United States Government Accountability Office, June 2007

How Many Ghost Assets are on Your Books?

According to Asset Management Resources (AMR), a company that specializes in helping organizations inventory and reconcile fixed assets, nearly every company has a problem with “ghost assets.” A ghost asset is a fixed asset that has been lost, stolen, or otherwise rendered unusable, yet remains on an organization’s books.

Ghost assets cost your company in many ways, from overpaying property taxes or insurance to lowering your return on investments and impacting the accuracy of your depreciation schedules and financial statements. In 16 years, AMR has inventoried millions of fixed assets and has observed that “an average of 65 percent of all fixed asset data is incomplete, inaccurate, or missing.” AMR also estimates that, on average, 10 percent to 30 percent of assets on company books are ghost assets.³

³ AMR, accessed online at www.assetmanagementresources.com

8 Ways to Save with Fixed Asset Management Software

To identify and eliminate ghost assets effectively, you'll need to conduct regular physical inventories of fixed assets and reconcile the results of those inventories against your fixed asset schedule. Recently, BusinessWeek recommended that business owners conduct an "asset audit" as one of three simple ways to reduce costs.⁴ A complete fixed asset management software solution, with tracking, depreciation, and inventory features, offers the easiest and fastest way to complete inventory and reconciliation.

In addition to reducing the tax and insurance costs associated with ghost assets, comprehensive fixed asset management software will help you:

- Save time and avoid the hassles of managing assets manually in spreadsheets.
- Maximize depreciation by choosing the best depreciation methods for tax planning.
- Establish better internal controls and audit trails.
- Produce more accurate financial reports.
- Comply with regulations.
- Plan and budget for new asset acquisitions or construction.
- Prepare for business continuity in the event of a disaster.

Let's examine the potential ROI of fixed asset management software in greater detail.

Tax Savings

With comprehensive fixed asset management software, you get more than a solution—you also enjoy a virtual team of depreciation tax experts. Your software is updated as tax laws and depreciation rules change. These tax updates ensure that your company remains in compliance with the latest rules and can take advantage of temporary tax savings. For example, the Economic Stimulus Act of 2008 allows temporary bonus depreciation for one year, to encourage business investment. Similar temporary accelerated depreciation was enacted several times in the past few years, including after the September 11th attacks and Hurricane Katrina.

Property Taxes

Property taxes are another way that ghost assets impact your organization's bottom line. Without accurate records of fixed assets that have been lost, stolen, or taken out of service, you will continue to pay state and local personal property taxes on nonexistent fixed assets.

The amount of personal property tax that your organization pays on fixed assets depends on the state(s) and localities in which you do business. Tax rates can vary significantly. For a fast estimate, multiply your ghost assets (estimated at 12 percent of your total fixed asset value) by .036.

Insurance

Without an accurate schedule of fixed assets, your company may continue to pay insurance premiums on ghost assets. This means that a typical organization pays 10 - 30 percent more in insurance premiums on these assets than necessary. Worse, if you lack a system to ensure that you add newly acquired fixed assets to your records, your company might not be covered if that expensive new equipment is lost or damaged.

⁴ Karen E. Klein, "Three Easy Ways to Cut Costs," BusinessWeek, May 14, 2008. Accessed online at www.businessweek.com

For a quick estimate of how much your company could be paying for insurance on ghost assets, calculate 12 percent of the total value of your fixed assets. Do not include buildings or real estate in this total, since theft or loss of this property is impossible. This represents a conservative estimate of your ghost assets, which average from 10-30 percent of the assets on the books at most companies. Next, assume your insurance premiums cost \$.01 for every \$1 of asset value. Multiply your ghost asset value by \$.01 for an estimate of insurance overpayment.

Theft and Loss

The types of fixed assets most susceptible to theft are small, easily portable, and do not have company identification, like tamper-resistant bar code labels. Laptop computers are among the most often lost or stolen. This presents a dual challenge for organizations: The initial theft represents a loss of capital, and if the computer contains intellectual property or confidential records, the company may suffer legal liability.

In 2006, the Veterans Affairs Department lost two computers containing the personal information of millions of soldiers and veterans.⁵ An audit of VA facilities followed, and \$19.6M of missing equipment was identified across nine audited facilities.⁶ Also in 2007, the Davidson County Election Commission lost the social security numbers of 337,000 Nashville voters when laptops were stolen. The loss was expected to cost \$1M in identity theft protection services.⁷ The Ponemon Institute estimates that companies pay an average of \$197 per lost or stolen customer record, so a single lost or stolen computer can potentially create a huge loss.⁸

Budgeting

When is the best time to acquire new plants, property, or equipment? What is the most advantageous depreciation method to use for a particular asset? A complete fixed asset management system can aid you in tax planning and fiscal budgeting.

If you're planning a purchase, your fixed asset system will inform you of the useful life for that asset type. This allows you to purchase at the best time of year for your depreciation purposes. If you are building a new plant or property, software that includes construction-in-progress accounting will enable you to track invoices and monitor your budget vs. actuals before you place the new asset in service.

After you've acquired a new fixed asset, your fixed asset solution can help you compare different depreciation methods to determine which is most advantageous for tax purposes. Do you prefer to deduct equal amounts of depreciation over the entire useful life (straight-line method), or is it better to front-load the depreciation (accelerated methods)? A sophisticated fixed asset management system provides the tools you need for this analysis.

Sarbanes-Oxley Compliance

In response to high-profile accounting scandals at large, well-known corporations such as Enron, Tyco, and WorldCom, Congress passed the U.S. Public Company Accounting Reform and Investor Protection Act of 2002, commonly referred to as Sarbanes-Oxley. The Act intends to strengthen investor confidence through increased transparency and improved corporate governance at public corporations. It places new reporting burdens on corporations and imposes strict penalties for failing to comply, which can include criminal prosecution.

5 Brent Bowers, "It's Easy, and Expensive, to Forget About Old Equipment," *The New York Times*, March 13, 2008. Accessed online at www.nytimes.com

6 Grant Gross, "Government audit slaps VA over missing IT equipment," *ComputerWorld*, July 25, 2007. Accessed online at www.computerworld.com

7 Robert McMillan, "Nashville laptop theft may cost \$1 million," *Washington Post*, January 19, 2008. Accessed online at www.washingtonpost.com

8 Matt Hines, "Cost of data breaches keeps rising," *InfoWorld*, November 28, 2007. Accessed online at www.infoworld.com

For the first time, C-level executives must personally certify the integrity of financial statements, as well as the internal controls that protect the financial health of the company. Additionally, public accounting firms must attest to the validity of the financial reports. Thus far, prosecutions have been rare. But that may be changing. In the fall of 2007, the Securities Exchange Commission charged 69 accounting firms and partners with violating Sarbanes-Oxley by failing to register with the PCAOB before auditing public companies.⁹ Does this represent an opening salvo from the SEC, now that public corporations and their audit firms have had several years to comply with the new regulation?

Section 404 of Sarbanes-Oxley requires companies to report on the effectiveness of their internal controls and requires an external auditor to attest to this statement. Consequently, corporations must now document their internal control structure, including IT systems and company procedures, to ensure the accuracy of financial reporting. Because fixed assets represent a significant portion of a company's capital investment, it is essential that companies maintain a reliable system for tracking fixed assets, conducting inventories, calculating depreciation, and reporting.

Disaster Recovery

When disaster strikes, having an accurate schedule of fixed assets can help you recover your business more rapidly and receive full and prompt insurance payments. Imagine the difficulties faced by businesses and organizations in the aftermath of Hurricane Katrina in 2005. For many of these entities, every fixed asset was damaged or destroyed by wind and flooding—including buildings and real estate. Harrah's Entertainment was forced to close three casino properties and reported approximately \$292 million in losses, much of it related to the destruction of fixed assets.¹⁰

In the event of a fire, earthquake, or flooding, you'll need comprehensive information about your fixed assets so that you can provide the insurance company with a complete list of damaged or destroyed assets, as well as their present value. A fixed asset schedule that has not been updated regularly will raise questions at the insurance company and likely delay and/or reduce the payment to your company.

A complete fixed asset system will also help you get your business up and running again more quickly. You'll have easy access to a full list of fixed assets, digital images of the assets themselves in many cases, receipts, and maintenance records that can be attached to the asset record, allowing you to replace assets that were destroyed. You'll also have a system for quickly placing new assets into service.

Opportunity Costs

Another important benefit of fixed asset software is its ability to save you time. According to Salary.com, the annual salary of an accounting manager ranges between \$69,927 and \$92,830 in the U.S. That equates to \$33 to \$44 per hour. Every hour not spent on tax research, depreciation computation, or inventory reconciliation is money saved by your organization. Since your fixed asset software stays up to date with the ever-changing tax laws, time and attention can be directed toward other critical assignments. With the current shortage of accounting professionals and the Baby Boom generation's retiring over the next decade, there's no doubt that there is plenty of other work to do!

⁹ Associated Press, "S.E.C. Charges Accountants and Firms With Sarbanes-Oxley Violations," The New York Times, September 14, 2007. Accessed online at www.nytimes.com

¹⁰ "Hurricane Katrina costs Harrah's nearly \$300M," New Orleans CityBusiness, February 22, 2006. Accessed online at www.findarticles.com

Sample ROI Calculation

This example considers the fixed asset management situation at XYZ Corporation. The company is a midsized manufacturer with several locations. It owns 500 fixed assets—including some expensive plant equipment. Knowing that this is far too many assets to manage effectively with spreadsheets, XYZ executives have decided to investigate the feasibility of implementing a complete fixed asset management system. Currently, they do not use bar coding and conduct a manual inventory only when it is required by auditors. They would like to evaluate fixed asset software that includes features to conduct regular physical inventories and automated reconciliation.

The following is a calculation of the potential return on investment that XYZ Corporation can expect if they decide to purchase fixed asset management software.

Assumptions:

Total Cost of Depreciable Fixed Assets

Plant and equipment, excluding buildings. \$1,000,000

Total Number of Fixed Assets

500

Average Asset Cost

Total cost of depreciable assets divided by number of assets. \$2,000

Total Cost of Ghost Assets

Ghost assets are assets that are lost, stolen, or rendered unusable but still remain on the company books. Assume 12 percent of your fixed assets are ghost assets, unless you conduct regular physical inventory and reconciliation. \$120,000

Tax Rate—Combined Federal and State

Assume a federal effective tax rate of .30 and a state effective tax rate of .06, or plug in your exact rates. 0.36

Calculations:

Potential Federal and State Overpayment

Taxes that would be paid if displaced assets are not removed from the fixed asset schedule, assuming an average of 40 percent of each asset's depreciable life remains. Overpayment of federal and state income tax is not applicable to government, school, and nonprofit organizations.

\$17,280

Potential Personal Property Tax Overpayment

Assume 70 percent of acquired value of displaced assets would be taxed at rate of .034. On average, assets subject to personal property tax are depreciated at a different rate than other fixed assets.

\$2,856

Potential Insurance Overpayment

Assume an insurance cost of \$.01 per \$1 of fixed assets. \$1,200

"One of the main benefits of implementing a fixed asset solution comes from inventory reconciliation. When we assess a company's inventory, it's not unusual for us to find that an average of 15 to 30 percent of the fixed assets have actually been retired, sold, discarded or are not in use."¹

Scott Swarts
President
Paragon Systems

Return on Investment:

Potential Insurance Overpayment

Add the overpayments for federal and state tax, property tax, and insurance. \$21,336

Estimated Software Cost

\$3,500

Payback Period

The length of time it will take to save an amount equivalent to the initial cost of the software in reduced taxes and insurance premiums. Immediately

First Year Savings After Software Purchase

The amount of total savings this company could enjoy in the first year of owning a complete fixed asset solution, minus the cost of purchasing the software. \$17,836

Conclusion

As you can see from the preceding example, a complete fixed asset management solution can potentially save tens of thousands of dollars annually. By ensuring accurate depreciation and eliminating ghost assets from your books, you can avoid overpayment of taxes and insurance premiums.

Fixed asset management software can also benefit your company in other ways that are harder to quantify than bottom line tax and insurance savings. These benefits include: increased compliance to avoid fines and penalties, time savings for your accounting staff, reduction of theft and loss, the ability to respond more effectively to disasters, and improved tax planning and budgeting.

As you evaluate the benefits and costs of comprehensive fixed asset management, you might want to calculate your company's specific return on investment using internal statistics about tax rates and asset costs. Simply follow the instructions in the example, or use a convenient online calculator at: www.SageFAS.com/ROI

About Sage Fixed Assets

Sage Fixed Assets is a complete fixed asset management suite that delivers reliable, cost-effective management of fixed assets throughout the lifecycle, from acquisition through disposal. With over 100,000 users nationwide, including the “Big Four” accounting firms, Sage Fixed Assets is trusted 3-to-1 over all other competing fixed asset software solutions combined.

Sage Fixed Assets integrates fixed asset depreciation, tracking, planning, and reporting. It's easy to learn and use, and it can link to your General Ledger. All Sage Fixed Assets solutions are available for single or multiple users, and larger organizations can benefit from the enhanced speed and scalability of SQL server technology. Targeted solutions are also available for government and nonprofit organizations. For more information about Sage Fixed Assets visit: www.SageFixedAssets.com

Sage Fixed Assets - Depreciation

Sage Fixed Assets - Depreciation conveniently manages assets throughout their entire lifecycle—from acquisition to disposal. It delivers advanced fixed asset accounting, depreciation, and reporting for any business needing effective asset management tools in integrated accounting environments.

Sage Fixed Assets - Tracking

This system gives you unparalleled asset inventory tracking and reconciliation capabilities. Using state-of-the-art bar-code technology, including Windows® CE and Palm® OS bar-code devices, Sage Fixed Assets - Tracking creates and tracks physical inventories quickly and accurately and seamlessly integrates with Sage Fixed Assets - Depreciation.

Sage Fixed Assets - Planning

Whether you're assembling multicomponent equipment, upgrading machinery, constructing buildings, or just accumulating separate invoices prior to placing a fixed asset into service, Sage Fixed Assets - Planning helps you take control of spending and streamlines your project accounting—eliminating cumbersome spreadsheets, manual data entry, and the mountain of invoices!

Sage Fixed Assets - Reporting

Using the power of Crystal Reports (R) XI, generate accurate, complete, customized reports that present fixed asset data however best suits your company. The easy-to-use report wizards make customizing your reports simple.

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